

## The Report of the Audit Committee

The Audit Committee met on 29 September 2016. Present:- County Councillor Mike Jordan (in the Chair); County Councillors Margaret Atkinson, Robert Baker, Eric Broadbent, Jim Clark, John Fort BEM and Helen Grant. In attendance:- Mr David Marsh and Mr David Portlock (External Members of the Committee).

**1. Annual Report:** The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees operate effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

The Audit Committee, on 29 September 2016, considered and approved its Annual Report for the year ended 30 September 2016. The Annual Report is appended.

### **The Audit Committee RECOMMENDS:**

That the Annual Report of the Audit Committee, as set out in Appendix 1, be noted.

MIKE JORDAN  
Chairman

County Hall,  
NORTHALLERTON.  
1 November 2016

## **PURPOSE OF THE REPORT**

To provide Members of the County Council with details of the work carried out by the Audit Committee during the year ended 30 September 2016. The report also details how the Audit Committee has fulfilled its Terms of Reference during this period.

## **BACKGROUND**

The Audit Committee is responsible for overseeing the County Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Committee's specific powers and duties are set out in Schedule 1 of the Constitution under the Terms of Reference of the Audit Committee. A copy of the Terms of Reference is attached at **Appendix A** for information.

Audit Committees are a key component of corporate governance and provide an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating effectively<sup>1</sup>. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

## **WORK UNDERTAKEN AND OPINION**

The Audit Committee has met on five occasions in the year to 30 September 2016, in accordance with its Programme of Work.

During this period, the Committee has assessed the adequacy and effectiveness of the County Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, the internal auditors, Veritau and the external auditors, KPMG. The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified by the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors, and between the auditors and management.

The Audit Committee is satisfied that the County Council has maintained an adequate and effective control framework through the period covered by this report.

The specific work undertaken by the Committee is set out below. The Committee:

### External Audit

- 1 Welcomed the appointment of KPMG as the County Council's new external auditors. The Committee met with the new auditors to discuss their approach;

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<sup>1</sup> CIPFA – Practical Guidance for Local Authorities and Police, 2013

- 2 Received and considered the external auditor's plan for the audit of the 2015/16 financial statements and the review of the County Council's arrangements for securing value for money;
- 3 Received and considered the results of KPMG's interim work in relation to the audit of the 2015/16 financial statements of the County Council and the North Yorkshire Pension Fund. The Committee was pleased to note that the auditors consider the control environment is generally well designed and effective although improvements to the bank reconciliation process and the authorisation of journals were recommended;
- 4 Received and considered the external auditor's report on the 2015/16 Audit. The report highlighted the key findings of the audit, made recommendations for improvements in control and identified other matters requiring communication to those charged with governance. The Committee was pleased to note that the external auditors had issued unqualified audit opinions for both the County Council and the North Yorkshire Pension Fund. KPMG had also issued an unqualified value for money conclusion and an unqualified opinion on the Whole of Government Accounts return;

#### Internal Audit

- 5 Continued to oversee the internal audit arrangements for the County Council and North Yorkshire Pension Fund. This has included approving changes to the Internal Audit Charter;
- 6 Received and considered the results of internal audit work performed in respect of each Directorate and across different thematic areas. Monitored the progress made by management during the period to address identified control weaknesses;
- 7 Received and approved the Internal Audit Plan for 2016/17. The plan ensures that limited internal audit resources are prioritised towards those systems and areas which are considered to be the most risky or which contribute most to the achievement of the County Council's corporate objectives;
- 8 Monitored the delivery of the annual Internal Audit plans through regular update reports presented by the Head of Internal Audit. Reviewed variations to the Audit plans which were considered necessary to reflect new or changed County Council priorities;
- 9 Considered the County Council's overall counter fraud arrangements in the light of emerging risks (both national and local) and approved changes to the County Council's whistleblowing policy;
- 10 Received and considered the outcome of the annual 2015/16 Fraud and Loss Risk Assessment. The Committee also reviewed the work of Internal Audit in respect of suspected fraud including the results of investigations into matters reported via the County Council's whistleblowing facilities or directly by management;
- 11 Received and considered the Annual Report of the Head of Internal Audit which provided an overall opinion on the County Council's control environment. The Committee noted that the work of internal audit is primarily focused on those areas

which represent the highest risk for the County Council. The Committee also considered the breaches of the Council's Finance, Contract and Property Procedure Rules which had been identified during audit work. The Head of Internal Audit confirmed that the Council's framework of governance, risk management and control provided substantial assurance. In forming this opinion, the Head of Internal Audit had considered the progress made by management during the year to address identified control weaknesses. The Head of Internal Audit also drew the Committee's attention to issues related to information security and the systems used to manage children's direct payments;

- 12 Assessed the performance of the County Council's internal audit provider, Veritau Limited against the targets set for 2015/16, and considered the performance targets for 2016/17. The Committee also considered the outcome of the internal audit quality assurance and improvement programme (QAIP). The QAIP is an ongoing process which helps to ensure internal audit work is conducted in accordance with established professional standards. The Committee was pleased that internal audit practices met the required standards and therefore continued reliance could be placed on the arrangements operating within the County Council;

#### Risk Management

- 13 Continued to oversee the County Council's risk management arrangements and strategy;
- 14 Reviewed the progress made by the County Council to identify and address corporate risks. This included consideration of the updated Corporate Risk Register. The Committee recognised that many of the risks identified were complex in nature and/or had potentially significant financial implications particularly given the increasingly complex nature of potential governance models (eg integration with health and combined authorities);
- 15 Assessed the adequacy and effectiveness of each Directorate's risk management arrangements through consideration of the progress made to address issues identified in the annual Statements of Assurance. The Committee also considered the risks identified in the Directorate Risk Registers and how these linked to the Corporate Risk Register;
- 16 Considered the outcome of the annual insurance renewals;

#### Corporate Governance

- 17 Considered and approved the Annual Governance Statement for 2015/16 of the County Council. The Committee also noted the issues identified in the annual Statements of Assurance prepared by Management Board, the Chief Executive and each Corporate Director, which inform the preparation of the Annual Governance Statement. The Committee also reviewed the progress made by management to address significant issues identified in the 2014/15 Annual Governance Statement;
- 18 Considered some limited changes to the Local Code of Corporate Governance prior to approval;

- 19 Considered a number of recent developments to strengthen and improve corporate governance arrangements as well as future plans. The Committee was pleased to note the very positive outcomes of the recent Peer Review;
- 20 Considered the annual report on partnership governance. The report included details of the County Council's current partnerships, changes which had occurred in the year and the arrangements in place to monitor the management and performance of key partnerships. The Committee consider that partnership governance remains effective and the existing arrangements are proportionate and commensurate to the risks;
- 21 Received reports on the progress made to update strategic plans and develop policies and procedures to reflect latest guidance and best practice on corporate governance, particularly in respect of information governance to reflect latest guidance and best practice. The Committee considered the ongoing work of the Corporate Information Governance Group (CIGG) which is responsible for updating the corporate information policy framework, identifying new or emerging risks, sharing best practice, and monitoring compliance with corporate information governance standards. The Committee shares the view that information governance remains a key corporate risk.
- 22 Received a report outlining the progress made to implement improved business continuity arrangements across the County Council. The Committee was pleased to note that good progress continues to be made to develop effective systems and processes to reduce the risks of disruption. The Committee noted that, during May 2016, the County Council had faced unprecedented protests against fracking proposals in North Yorkshire. The planning for the protests had identified the need to activate directorate and corporate business continuity plans. This approach had allowed a large number of staff to work remotely to great effect during the actual period of the protests;
- 23 Received reports outlining the future strategic direction of contract management and the associated risks and challenges facing the County Council. The Committee also considered the strategic and operational management arrangements for overseeing procurement activity. The County Council currently has contracts valued over £300m for the supply of goods, services and works. A revised Corporate Procurement Strategy for the period 2014 to 2020 has been developed together with a series of action plans. The Strategy recognises that early engagement with suppliers and contract management are two areas which need to be strengthened. Future priorities include providing further support to contract managers, completing a skills audit, improving commercial awareness and focusing on relationship management (for strategic contracts). The Committee expressed support for improving the skills of contract managers, sharing contract management practices and experiences across directorates and challenging contracts which are not delivering;

#### Value for Money

- 24 Considered the arrangements adopted by the County Council to achieve value for money;

## Financial Statements

- 25 Considered and approved the Statement of Accounts for 2015/16 of the County Council and the North Yorkshire Pension Fund;
- 26 Received and considered proposed amendments to the County Council's Accounting Policies. A revised Code of Practice on Local Authority Accounting was issued by CIPFA in March 2015 which updated the definition of the fair value measurement of assets. The new definition needed to be incorporated in the Accounting Policies but in practice resulted in only minimal changes to the valuation of the County Council's portfolio of surplus property and investment property (County Farms). The Committee also noted a number of potential future changes to the Code of Practice including the need to prepare a narrative statement to describe the County Council's financial performance and use of resources, and changes to the treatment of transport infrastructure assets. The Committee also recognised that changes to the timetable for completing and publishing the financial statements from 2017/18 onwards would have an impact on the County Council. The 2017/18 financial statements will need to be published by 31 July 2018, two months earlier than currently. The Committee is expected to receive further details of the actions being taken to meet this more challenging timetable;

## Other

- 27 Received and considered proposed changes to the Contract Procedure Rules prior to referral to the Executive and approval by the County Council. The need for changes had arisen due to a number of factors including changes in legislation and regulation. The main changes included increases in the financial thresholds, new rules on the allocation of grants, improved transparency and measures to help engage small and medium enterprises (SMEs) and voluntary and community sector organisations;
- 28 Continued to scrutinise the County Council's treasury management arrangements. This included reviewing the Treasury Management policy statement and the annual Treasury Management and Investment Strategy for 2016/17. The Strategy incorporates a minimum revenue provision policy and a policy to cap capital financing costs as a proportion of the annual net revenue budget.
- 29 Received briefings from officers on issues facing the County Council including the measures being taken to reduce the risk of fraud and the arrangements for securing value for money;
- 30 Reviewed the progress which had been made by officers to address other issues raised at meetings of the Committee;
- 31 Considered the options for the future appointment of the County Council's external auditors. The County Council is required to appoint new external auditors by 31 December 2017 in time for the audit of the 2018/19 accounts. The options include the local appointment of auditors with the process overseen by an independent auditor panel, a joint appointment with one or more other councils or appointment via a sector led body set up by the Local Government Association (LGA) for this purpose. The Committee expressed clear support for the option of using the sector led body as there would be economies of scale and improved transparency. The LGA also had knowledge and experience acquired through the setting up of the current transitional arrangements;

32 Reviewed the Committee's Terms of Reference. We concluded that no changes were required.

Councillor Mike Jordan  
Chairman of the Audit Committee

## AUDIT COMMITTEE

### TERMS OF REFERENCE

1. In respect of **Internal Audit**

- to approve the Internal Audit Strategy, Annual Audit Plan and performance criteria for the Internal Audit Service.
- to review summary findings and the main issues arising from internal audit reports and seek assurance that management action has been taken where necessary.
- to review the effectiveness of the anti-fraud and corruption arrangements throughout the County Council.
- consider the annual report from the Head of Internal Audit.
- to review the effectiveness of the system of Internal Audit and the Committee itself on an annual basis.

2. To review the workplan and performance of External Audit.

3. To review, and recommend to the Executive, changes to Contract, Finance and Property Procedure Rules.

4. In respect of **financial statements**

For both the County Council and the North Yorkshire Pension Fund

- to approve the respective annual Statements of Final Accounts
- to receive and review the Annual Audit Letters and associated documents issued by the External Auditor
- to review changes in accounting policy

5. In respect of **Corporate Governance**

- to assess the effectiveness of the County Council's Corporate Governance arrangements
- to review progress on the implementation of Corporate Governance arrangements throughout the County Council.
- to approve Annual Governance Statements for both the County Council and the North Yorkshire Pension Fund.
- to review the annual Statements of Assurance provided by the Chief Executive, Management Board and Corporate Directors.
- to liaise, as necessary, with the Standards Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers.

6. In respect of **Risk Management**

- to assess the effectiveness of the County Council's Risk Management arrangements.
- to review progress on the implementation of Risk Management throughout the County Council.

7. In respect of **Information Governance**



- to review all corporate policies and procedures in relation to Information Governance.
- to oversee the implementation of Information Governance policies and procedures throughout the County Council.

8. In respect of **Treasury Management**

- to be responsible for ensuring effective scrutiny of the County Council's Treasury Management strategy and policies as required by the CIPFA Treasury Management Code of Practice.
- To review these Treasury Management strategies, policies and arrangements and make appropriate recommendations to the Executive.

9. In respect of **Value for Money**

- to have oversight of the arrangements across the County Council in securing Value for Money.

10. To meet not less than four times a year on normal business and review its Terms of Reference on an annual basis.
11. To consider any other relevant matter referred to it by the County Council, Executive or any other Committee. In addition any matter of concern can be raised by this Committee to the full County Council, Executive or any other Member body.
12. To exercise all functions in relation to the making and changing of policy relating to such audit and counter-fraud matters which fall within the remit of the Committee (save as may be delegated otherwise).